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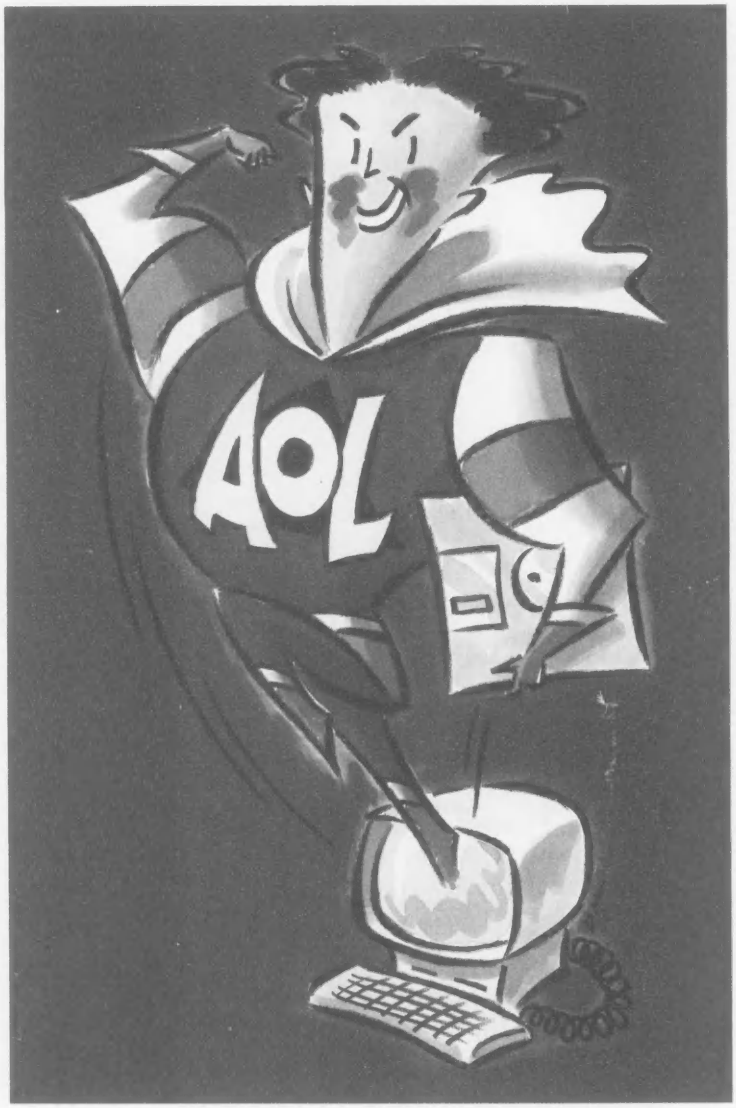

In April 1775, the first shots of the American revolution rang out at the battles of Lexington and Concord. Over two hundred years later, in April 1993, the first shots of the online revolution were fired as America Online broke the tacit peace between the major commericial vendors and announced its intention to become the largest online service.

America Online's opening move was in response to what it perceived as a misstep by industry biggie Prodigy. In April, Prodigy changed its famous flat-rate pricing structure and, for the first time, charged connect fees for certain services such as bulletin boards and stock quotes. In addition to the $14.95 monthly fee, Prodigy users now have to pay anywhere from $4.80 to $3.60 per hour for additional time. Days later, America Online (AOL) responded by dropping its connect charge to from $6.00 to $3.50 per hour. (Along with reducing the connect charge, AOL actually raised its monthly rate from $7.95 to $9.95.)

Of those fateful days in April, AOL president Steve Case says, "We took a fresh look at the market and decided we...had a better interface, we had a better price...We took the opportunity to be the number one service."

Since then the online war has only spread. General Videotext, parent of Delphi and BIX, offered the first national hook-up to the Internet and became Delphi Internet Services Corp. was taken over by newspaper baron Robert Murdock. Prodigy has mounted a new offensive strategy that includes a revamped interface and expensive advertising on television programs such as "Northern Exposure" and "Monday Night Football." (For more on Prodigy, see page 13.)

AOL, in the meantime, has piled up a series of small victories. In November 1993, the service announced that it had over 450,000 subscribers, nearly twice as many as it had in the previous year. AOL's corporate revenues for the quarter ending September 30, 1993 were up 150 percent over the previous year; net income was up almost 50 percent. The company has also been flooded with favorable mentions in the press. *Advertising Age* recently selected America Online as one of its trends to watch in 1994. According to that important trade magazine, America Online is "IN" and Prodigy is "OUT."

The "great" online revolution, however, has only just begun. Even with 450,000 subscribers, AOL has a long way to go before it matches the million-plus membership rolls of both Prodigy and CompuServe. When the smoke clears, AOL

for the STAR

BY KEVIN M. SAVETZ

hopes to be on top, but the outcome may depend on how well AOL delivers news services such as Internet access and 9600 bps service.

In The Beginning

Steve Case, 35, started the Vienna, Virginia-based AOL eight years ago and did not find success his first time out of the blocks. AOL's maiden product, Q-Link was developed in late 1985 specifically for users of Commodore-64 and -128 computers. In August 1988, the company introduced PC Link, for Tandy Corporation's line of PC-compatible machines. It also launched, regretted and canceled "Promenade," a little-known online service bundled with IBM PS/1 computers.

America Online was launched in 1989 for Macintosh and Apple II users. In 1991, AOL was expanded to include a version for IBM PC-compatible computers. The service was profitable just two years after its initial launch. By January 1993, AOL had introduced a version for Microsoft Windows. Windows users now comprise the fastest-growing portion of AOL's customer base.

Back in the early days, Prodigy and America Online weren't such fierce competitors. In an August 1992 interview in *Micro Times* magazine, Case said that he didn't consider Prodigy competition for America Online, in part because the two services offered different services and aimed for different kinds of customers. At that time, America Online even advertised on Prodigy.

Case's stance has shifted from passive to combative and his attitude towards Prodigy has changed dramatically. According to Case, "Prodigy has proven that you can spend a lot of money — in this case a billion dollars — but that does not guarantee you customer loyalty. Prodigy is complicated, and getting more expensive every month. You can't buy your way into a market. You have to earn your way into the market."

America Online has taken the battle of the online services to a new level by creating an online "Prodigy Refugee forum," a place for former Prodigy users to learn about AOL and find long lost Prodigy friends. The scheme seems to be

working. The refugee forum is surprisingly active, with a dozen new messages a day, even six months after it was opened.

Prodigy, which in three years of operation has yet to be profitable, seems a little irritated with all the hoopla over America Online. Prodigy president Ross Glatzer fires back that "We have more logins in a day than the rest of the online industry combined. To become number one, any online service will have to pass the two most popular services (CompuServe and Prodigy.) Saying AOL can be number one is a point-in-time illusion."

The war rages on.

America Online president Steve Case greets AOL members at Chicago's Hard Rock Cafe.

Rolling Out The Products

America Online wants its members to come for the services and stay for the community. The service tries to balance news and information with chat services and forums. Barbara Zimmerman, an avid AOL user, thrives on the community.

" I have made some friends in Finland, Denmark and as close as a few miles away. Getting online is no fun unless you meet friends to talk with. I get bored just reading about news and stocks. I like to be interactive," she explains.

Interactivity, however, seems to be taking a backseat to the new products that AOL is planning to debut in the next few months including 9600 bps service and expanded Internet access.

9600 Service

Long-awaited by customers whose high speed modems were slowed to a 2400 bps crawl on AOL, 9600 service should be available in most cities by the time you read this. Unfortunately (and suspiciously) America Online couldn't give any concrete details about the roll-out of this widely-demanded new service.

Expanded Internet Access

In October, AOL announced it would expand its access to the Internet beyond electronic mail service. AOL's new "Internet Center" will provide access to the Internet and will include WAIS (Wide Area Information Service), Gopher databases and Usenet newsgroups.

Internet aficionados should note that AOL's Internet service lacks several functions, including file transfer protocol (FTP), telnet, and Internet Relay Chat. AOL plans to add these functions in stages to "make sure we're doing it right," Case says. That means making the Internet easy to use, a difficult goal — but ease of use has always been AOL's fight song.

"Internet access will arrive in multiple phases," Case said. The first phase, available last October, includes information on how to use Internet and other background material. This highly-promoted first step is really just a repackaging of the Internet e-mail that AOL has offered for months. The next stage, which was scheduled to go online in December, is access to Usenet newsgroups. Case also mentioned the addition of WAIS and Gopher, saying that "should also happen in the December time frame."

The Internet has typically been a haven for hackers accustomed to complicated commands and ugly interfaces, but AOL wants to change that. "It's much too hard

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for most people to use the Internet now," Case says. "Delphi made a good first start, but we're trying to go beyond that."

Dubious about AOL's foray into the world of the Internet is Steve Laliberte, director of Computer Services at Delphi. He gets the feeling that "the people at AOL don't want to do the Internet, but they have to. Now, they have to catch up."

Delphi has offered full Internet access for over a year, including tools such as Usenet, telnet, and FTP, that AOL has yet to pull out of its hat. Laliberte claims that Delphi has "put a fair amount of editorial time into researching what's good and what's not good... With AOL it's really hard to distinguish the fluff from the real stuff."

Indeed, until AOL can offer the full gamut of Internet tools, full-featured Internet services, Delphi will continue to have a huge advantage over it — even though they may be more difficult to learn. Until AOL unveils a complete range of Internet treasures, power users wanting full Internet access will find themselves on other services.

New users get a chance to experiment online with AOL.

Trouble In The Ranks

While it's good to sign on new members, the most important (and profitable) part of the battle is keeping them. And before AOL claim victory, it will have to deal with several customer service problems.

In the period from August to October 1993, AOL added 100,000 new users and created a customer service nightmare by leaving an understaffed technical support team to deal with a bulging number of customers. Hundreds of users complained loudly of hour-long waits for telephone support. America Online claims to have resolved most of the customer service problems by adding staff (50 new hires for technical support) and rethinking how calls are handled. Case says AOL is still "catching up", but believes that the complaints about customer service have died down to scattered, quiet grumblings.

PRODIGY FIGHTS BACK

After months of watching customers flock to America Online, Prodigy has launched a new strategy designed to retain its heavy bulletin board users. Last November, Prodigy added a new pricing plan geared toward heavy users which charges $29.95 a month for 25 hours of connect time. That's equivalent to $1.20 an hour and compares favorably to the $3.20 per hour America Online charges its heavy users.

Prodigy's $14.95 a month option is still available and includes 30 e-mail messages and two hours of connect time. (Additional connect time is $3.60 an hour.) Prodigy Mail Manager, which includes the new Internet e-mail access, is an additional $4.95 a month.

In addition to pricing changes, the new Prodigy '94 has a whole new look. Designed for a Windows environment and 9600 bps, the improved Prodigy runs quickly and smoothly. High quality photos that almost look three-dimensional accompany news articles and shopping catalogs. And those annoying ads for which Prodigy is famous have now been relegated to the background.

Prodigy also has added some clever gimmicks designed to lure new users to the online world. Online forums with celebrities such as vampire author Anne Rice and Buffalo Bills star Thurman Thomas, offer users the opportunity to interact with the rich and famous. The service is also encouraging local celebrities such as radio personalities to go online with Prodigy and chat with users.

Despite Prodigy's best efforts, America Online still may have the upper hand in some areas. AOL's flat-rate pricing is simpler for users to understand than Prodigy's basic package plus add-ons structure. Also, America Online is giving away its software for free to anyone who wants it. Prodigy is trying to get $4.95 from users for its new version and $29.95 for its starter kit.

Finally, both services give new users ten free hours to try out the service. According to many industry experts, that may be the best hook in the business.

By Kevin Savetz and Kathryn McCabe

Even with the new changes, you can't please everybody all of the time. Former AOL user Steve Kaynor got fed up waiting for the service to update his computer with fancy graphics for Omni and Time magazine features. "I like to log in just briefly without taking much time. It seemed like every time I would log on, they were doing an update... They told me there is no way to skip the update, even though I never read online magazines." Kaynor tried calling customer support and claims he couldn't get through — so he cancelled his subscription.

Another area that sparks controversy among AOL users is the sexually-explicit talk that frequently occurs in AOL's "People Connection" chat forums. "Dirty talk cannot be controlled," claims Jim Coates, a heavy AOL user and a computer columnist for the Chicago Tribune. "Whenever you get a bunch of adults talking to another, they talk about what adults have talked about for millions of years. It's just one of the things you encounter online," he says, noting that every online service has had to formulate policies on erotic talk at one time.

America Online responded to this problem last October with a lockout function that allows parents to deny family sub-accounts access to chat functions and online messaging areas. "It is important for us to provide tools for people to communicate, and let people use those tools," Case said. "We would rather allow people generally to discuss whatever they want and err on the side of being tolerant than to presume the role of being a censor."

And The Winner Is...

Is America Online heading towards a swift and decisive victory in the online war? Not according to Gary Arlen, president of Arlen Communications Inc., a research company that specializes in interactive services. Arlen thinks that AOL and its competitors are reaching a growth plateau. He notes that "The biggest issue is how 70 percent of households don't have a modem, or don't use the one they have. People use their computers for word processing and playing games — they don't think of the computer as a communications and information retrieval device."

Checking out the AOL crowd at the Hard Rock Cafe

If the size of the online universe is indeed hitting a plateau, the people who package services will look to new areas, like the interactive cable television and information services to be offered by the regional Bell operating companies. Arlen says that America Online is planning for the long term by "developing skills to create broadband products, such as delivery of full-motion video and animation."

"AOL's biggest challenge is sustaining momentum and finding partners in a tougher marketplace," says Neil Harris, a principle at the Interactivity Consulting Group. Besides competing with Prodigy, CompuServe and the others, AOL needs to be ready to battle "new major online services, some with superior technology," said Harris, who claims that at least three new major online services are scheduled for launch in 1994.

To rally the troops and spread the online word, Case and his AOL entourage embarked on a national tour last fall. During this eight-stop go-round, Case previewed AOL's new services, gave equipment to selected inner-city schools, and partied with AOL members at the Hard Rock Cafe in each city. This was all part of a unique marketing effort to sell online services to those people that Arlen claims are using their computers for word processing — regular people.

As Harris suggested, AOL is busy setting up numerous partnerships in a variety of areas. Special software is in the works for several personal digit assistants (PDAs) including the Newton MessagePad, Sharp's PT-9000 and Zoomer (a joint project of Casio and Tandy). AOL is also forging alliances with newspaper and magazine publishers. It started with the Chicago Tribune and San Jose Mercury newspapers and has since added magazines such as Omni, Time, National Geographic and Consumer Reports.

To date, there have been no casualties in the online war. But according to Steve Case, there will be some in the future as users sort through their options and make decisions. In the end he feels "This is a subscription business, and every month subscribers decide if they are going to renew... Winners and losers will be defined based on who is bringing value to customers."

So far, no one has raised a white flag.

Kevin Savetz is a computer journalist living in Arcata, California with his fiancee (Peace,) his Macintosh (Tofu) and too many cats to name. He can be reached via e-mail at "savetz@rahul.net" (Internet) or "Savetz" (America Online.)